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Peru

Sugar

Annual

2006

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Report Highlights:
Sugar production in CY 2006 is expected at 760,000 MT, up from 696,000 MT in CY 2005 due to favorable weather conditions. Sugar exports are estimated at 70,000 MT in CY 2006, mostly to the U.S. under the TRQ system. Imports in CY 2005 were 265,085 MT, 63 percent of which were from Colombia.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Unscheduled Report
Lima [PE1]
[PE]

Executive Summary

Cane sugar production for CY 2006 is forecast to rebound to 760,000 MT. Due to a drought that affected most of Peru in 2004, sugar production fell from 747,000 MT to 696,000 MT in CY 2005. Sugar cane production is forecast at 7.25 MMT in CY 2006, a significant recovery from 6.85 MMT in CY 2005. Yields range from 53 to 190 MT of cane per hectare and age from 13 to 18 month between cuts. Peru's milling capacity is 37,000 MT of cane per day.

Cane sugar consumption is estimated at around 935,000 MT in CY 2006, 66 percent of which is for direct consumption and the remaining for industrial use. As the Peruvian economy improves, sugar demand will increase, especially in sugar based beverages and confectionary products.

Peruvian sugar exports in CY 2006 are estimated at about 70,000 MT. The U.S. is virtually Peru's only sugar export market under the U.S. sugar tariff-rate quota. Sugar imports in CY 2005 increased significantly due a diminished local production that created a deficit in the market. Colombia was the leading sugar exporter to Peru with almost 63 percent of the market.

The U.S. and Peru have finished negotiating a bilateral free trade agreement that is expected to come into force, once signed by the presidents and approved in both congresses, by January 2007. This trade agreement includes five-year linear tariff reductions for glucose and fructose including high fructose corn syrup. These reductions will start at a tariff level of 17 percent and 30 percent for glucose and fructose respectively.

Currently sugar is assessed a 25 percent import tariff and is also subject to the price band system, which is a surcharge assessed depending on the international prices (the lower the international price, the higher the tax). The surcharge under the price band for sugar in 2004, ranged from $38 to $147 per MT. The price system will be eliminated upon implementation of the bilateral trade agreement.

Peru grants duty free entrance to Bolivian sugar due to a bilateral trade agreement. It also grants duty free access to sugar from the CAN member countries as of January 2006. However, it has established a 21 percent temporary safeguard for refined sugar from Colombia.

PSD Table							
Country	Peru						
Commodity	Sugar Cane for Centrifugal				(1000 HA)(1000 MT)		
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	
Market Year Begin		01/2004		01/2005		01/2006	MM/YYYY
Area Planted	83	83	84	80	0	81	(1000 HA)
Area Harvested	71	71	75	68	0	68	(1000 HA)
Production	7850	7159	8300	6850	0	7250	(1000 MT)
TOTAL SUPPLY	7850	7159	8300	6850	0	7250	(1000 MT)
Utilization for Sugar	7850	7159	8300	6850	0	7250	(1000 MT)
Utilizatn for Alcohol	0	0	0	0	0	0	(1000 MT)
TOTAL UTILIZATION	7850	7159	8300	6850	0	7250	(1000 MT)

PSD Table							
Country	Peru						
Commodity	Sugar, Centrifugal				(1000 MT)		
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	
Market Year Begin		01/2004		01/2005		01/2006	MM/YYYY
Beginning Stocks	10	10	22	30	15	30	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	790	747	850	696	0	760	(1000 MT)
TOTAL Sugar Production	790	747	850	696	0	760	(1000 MT)
Raw Imports	0	12	0	38	0	15	(1000 MT)
Refined Imp.(Raw Val)	180	180	110	227	0	185	(1000 MT)
TOTAL Imports	180	192	110	265	0	228	(1000 MT)
TOTAL SUPPLY	980	949	982	991	15	1018	(1000 MT)
Raw Exports	41	41	41	33	0	70	(1000 MT)
Refined Exp.(Raw Val)	0	0	0	0	0	0	(1000 MT)
TOTAL EXPORTS	41	41	41	33	0	70	(1000 MT)
Human Dom. Consumption	876	878	885	928	0	935	(1000 MT)
Other Disappearance	0	0	0	0	0	0	(1000 MT)
Total Disappearance	917	878	926	928	0	935	(1000 MT)
Ending Stocks	22	30	15	30	0	13	(1000 MT)
TOTAL DISTRIBUTION	980	949	982	991	0	1018	(1000 MT)

Import Trade Matrix	
Country	Peru
Commodity	Sugar, Centrifugal
Time Period	2005
Imports for:	
U.S.	
Others	
Colombia	166,492
Bolivia	48,495
Ecuador	32,376
Brazil	14,124
Total for Others	261,487
Others not Listed	3,598
Grand Total	265,085

Units: Metric Tons

Export Trade Matrix	
Country	Peru
Commodity	Sugar, Centrifugal
Time Period	2005
Exports for:	
U.S.	32,187
Others	
Italy	269
France	159
Total for Others	428
Others not Listed	24
Grand Total	32,639

Units: Metric Tons

Production

Cane sugar production for CY 2006 is forecast to rebound to 760,000 MT. Due to a drought that affected most of Peru in 2004, sugar production fell from 747,000 MT to 696,000 MT in CY 2005. This fall was caused by lower yields and less area planted as a consequence of the drought. Good weather conditions and abundant water supply will allow production to recover in CY 2006.

Sugar cane production is forecast at 7.25 MMT in CY 2006, a significant recovery from 6.85 MMT in CY 2005. Sugar mills in Peru are located along the coast and have a total milling capacity of 37,000 MT of cane per day. Since sugar cane in Peru is produced year round, mills do not need to be very large. Yields and cane age vary greatly from one producer to another. Yields range from 53 to 190 MT of cane per hectare and age from 13 to 18 month between cuts. Production costs also vary quite a bit, one of the most important being fuel. Fuel utilization range from 5 to 90 gallons per metric ton of sugar produced.

Sugar in Peru is produced in the rich valleys along the northern coast. Normally this area has excellent conditions for growing sugar cane such as high temperatures and lack of rain. All the fields in this area are surface irrigated, which allows producers to cut the supply of water at a given time to obtain higher sucrose yields. Under normal weather conditions, and if the cane is milled on time, sucrose yields are around 12 percent.

Private investment in both fields and processing infrastructure has boosted production in recent years, encouraging more planted area (especially from independent producers), new plantations to replace old and inefficient fields, a better extraction rate due to the upgrade of the mills, and better quality of the cane at harvest time. Total investment in the last nine years has been around $330 million, of which about $130 were invested in improving the quality of the plantations and installing new ones, $100 million were used to upgrade the mills and about $100 million were destined to improve administrative and control processes and systems.

After a long privatization process, most sugar mills have been able to improve their financial situation and production levels. After the land reform of 1968 sugar companies were expropriated and given to the workers in a socialist type cooperative. Due to its precarious financial situation, poor production and inability to pay their taxes and social security debts with its workers, these cooperatives were encourage, in the late 1990s, to become private companies by issuing shares and find strategic partners that could invest in upgrading mills, replace old fields and improve irrigation systems.

Casa Grande, Peru's largest sugar producer, was the most recent company to find an investor. Gloria, an important Peruvian dairy processor, who has announced a $60 million investment plan to improve the company's efficiency, has recently bought it. Casa Grande has 30,000 hectares but only about 12,000 hectares under production and its milling capacity (10,000 MT of cane per day, a third of total capacity in Peru) operates at less than fifty percent. Casa Grande's production and processing ratios are very inefficient, 105 MT of cane per hectare compared to 160 MT per hectare of its neighbors. Casa Grande could at least double its sugar production very rapidly by planting the areas currently idle and improving yields through technological changes. Ethanol production is also an important project that investors are evaluating.

Other mills such as Pomalca and Tuman still refuse to merge with a strategic partner and continue falling in a financial black hole. Political parties have a strong influence on these companies' workers and are often a source of political unrest. The leadership of these companies, who have been in office for over three decades, have made a good living off the status quo and are the least interested in finding a strategic partner.

Sugar Production by Company 2005			
Company	**Production (MT)**	**Market Share (%)**	**Accumulative Share (%)**
Casa Grande	114,477	16.44	16.44
Cartavio	112,966	16.22	32.66
Paramonga	109,240	15.68	48.34
Laredo	101,113	14.52	62.86
Tuman	96,814	13.90	76.76
Andahuasi	67,882	9.75	86.51
San Jacinto	51,592	7.41	93.91
Pomalca	34,117	4.90	98.81
Chucarapi	8,269	1.19	100.00
Total	696,470	100	

The industry is very interested in start producing ethanol out of sugar cane. Law 28054, passed in 2003 promotes the use of environment friendly fuel "biofuel". The procedures to implement this law were recently (2005) issued, meaning it actually comes in effect. This law encourages the substitution of highly contaminating components of fuel, for more environment friendly elements. The estimated investment for ethanol production is about $130 million, about 40 percent for adjusting mills and 60 percent to increase area planted. A 100,000-liter per day ethanol plant cost around $6-8 million. The industry estimates that around 7.8 percent of the gasoline and 5 percent of diesel would be replaced by ethanol.

Consumption

Cane sugar consumption is estimated at around 935,000 MT in CY 2006, 66 percent of which is for direct consumption and the remaining for industrial use. As the Peruvian economy improves, sugar demand will increase, especially in sugar based beverages and confectionary products.

Producers are concerned about Colombian sugar coming into Peru at lower-than-production costs. A single-desk seller sets prices in Colombia and the surplus over domestic consumption is allegedly dumped in Peru.

Trade

Peruvian sugar exports in CY 2006 are estimated at about 70,000 MT. The U.S. is virtually Peru's only sugar export market under the U.S. sugar tariff-rate quota. The U.S. quota is distributed by the Ministry of Agriculture among the sugar mills, in coordination with the Sugar Producers Association.

Sugar imports in CY 2005 increased significantly due a diminished local production that created a deficit in the market. Colombia was the leading sugar exporter to Peru with almost 63 percent of the market, followed by Bolivia and Ecuador with 18 and 12 percent of the market respectively.

U.S. – Peru Trade Promotion Agreement (TPA)

The U.S. and Peru have finished negotiating a bilateral trade agreement that is expected to come into force, once signed by the presidents and approved in both congresses, by January 2007. This trade agreement includes five-year linear tariff reductions for glucose and fructose. These reductions start at a tariff level of 17 percent and 30 percent for glucose and fructose respectively.

Policy

After ten years of a relatively successful privatization process, there still are four sugar mills that have not found an strategic partner. Of the four mills, there is one (Andahuasi) that has decided not to sell shares and has developed an investment plan to upgrade the mills and renovate plantations. This is the only case of a mill that has not sold shares and is being successful. The other three mills are virtually broke. A general unrest among the worker/owners of these ex-cooperatives, continues to be the major obstacle for privatization. Political manipulation have led workers to believe that their land is the best in the country and have overpriced it, not taking into account the major debts carried by the cooperative.

Peru is expected to recover and become self sufficient in the upcoming years, maybe even have a 200,000 MT surplus.

Sugar cane is assessed 25 percent import tariff and is also subject to the price band system, which is a surcharge assessed depending on the international prices (the lower the international price, the higher the tax). The surcharge under the price band for sugar in 2004, ranged from $38 to $147 per MT.

As of October 2005, Peru grants duty free entrance to Bolivian sugar due to a bilateral trade agreement. As a result of Decision 414 of the Andean Community, Peru began granting duty free access to sugar from the CAN member countries as of January 2006. However, Peru has established a 21 percent safeguard for refined Colombian sugar. This safeguard is temporary (six months) and should be abolished in June 2006.